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EU presents unprecedented industrial policy in response to Biden's investment plan

The European Commission presented on Thursday a plan designed to build and subsidize zero-emission European manufacturing.

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At the European level, it's a revolution. Of course, it is incomplete and needs to clear several legislative approvals, but the paradigm shift is here. After years of rejecting the idea, the European Union (EU) is now talking about industrial policy. The aborted merger between France's Alstom and Germany's Siemens in 2019 – following a decision by the Commission – and endless debates on the advisability of creating "European champions" are a thing of the past.

The Covid-19 pandemic and the war in Ukraine even more have brought the old continent face to face with its dangerous dependencies: On China regarding health, and on Russia with respect to energy. The Inflation Reduction Act (IRA) presented by US President Joe Biden in August 2022 – which contains 369 billion dollars (348 billion euros) for US green industries – has become a further catalyst for change, as many large European companies mentioned relocating across the Atlantic to benefit from this aid. The EU suddenly realized that its ambitious legislation to fight global warming – the European Green Deal – had to be accompanied by equally proactive action with regard to its industry if it wanted a role in the production of future technologies.

The Commission presented a draft law on Thursday, March 16, for a "zero-emission industry" designed to improve Europe's competitiveness in clean technologies. It was conceived in the same spirit as the legislation on semiconductors that it made public in February 2022 and which is currently being examined by member states and the European Parliament. In the week of March 6, Brussels also announced a simplification of state aid for these promising sectors.

To complete these new policies, the executive branch of the EU also presented on Thursday a draft law on "critical raw materials" that green technology and digital industries require, with a view to ensuring a degree of autonomy for the EU in this area, where it has been very largely dependent on third countries, particularly China.

"The one mistake I think we've made— and the one mistake which would be old-fashioned industry politics — would be to have no industry politics. And that's what we had for too long in Europe, thinking that the market would take care of everything itself," explained Frans Timmermans, vice president of the Commission, on Tuesday. "We now understand that the strategic choices China made a decade ago are now coming home to roost. And we also have to make our own strategic decisions now for the decades to come," he added, after recalling the trauma of the EU-27, who saw the entire solar panel industry go to China.

Beijing's 2015 launch of its "Made in China 2025" program did not overly worry Europeans at the time, who saw it as a hallmark of Chinese-style planning. While it has not achieved all its objectives, the "Middle Kingdom" has since established itself in strategic sectors such as electric cars.

Partner service

"Music to my ears," said Thierry Breton, the commissioner for the internal market, upon hearing his Dutch colleague offer this *mea culpa*. France and President Emmanuel Macron in particular have long been calling for a more autonomous and less naive Europe: "No more naivety, it is now time for action," continued Breton, who was minister of the economy in French ex-President Jacques Chirac's 2005 government. However, "we have no ambition to compare ourselves to the United States in terms of interventionism and protectionism, much less to China," he continued. "We are not in a planned economy," the French Commissioner insisted.

'We have resources in Europe'

All the same, the EU has now set specific targets that outline a blueprint for industrial planning. Just as it plans to produce 20% of semiconductors within its borders by 2030, it now wants its own factories to produce 40% of its green technology needs – such as solar panels, wind turbines, electric batteries and heat pumps – by that same deadline. According to the Commission, this market is expected to triple to reach 600 billion euros by 2030. And it is expected to grow even more: By 2050, the deployment of renewables should quadruple, the use of heat pumps increase sixfold and electric vehicle production be multiplied by 15.

"No batteries without lithium, no wind turbines without rare-earth elements, no ammunition without tungsten," Breton said, "we have resources in Europe. We must give ourselves the means to extract them." The EU executive wants the Union to end its dependency on countries such as China, Turkey and India for the strategic raw materials identified – lithium, magnesium, rare-earth elements, tungsten, cobalt, magnesium and nickel. It must also by no means depend on a single country for more than 65% of its needs.

China has a "geopolitical tool" with its "near-monopoly on rare-earth elements" Breton believes. The Commission, therefore, proposes that – by 2030 – the EU-27 should be able to extract 10% of their consumption from their own territories, compared to 3% today. It also sets targets for the Union in terms of refining and reusing these raw materials.

To achieve this, the Commission plans to simplify administrative procedures and accelerate granting authorizations for green industry facilities so that permits are issued in less than 18

months, as they are with mines and refineries. It is also planning financial opportunities – such as state and Community subsidies as well as the possibility of using a share of the revenue from companies' purchased emissions rights under the Emissions Trading System (ETC).

Strategic projects will be identified which will benefit from particularly advantageous conditions. In the industrial sector, this will concern eight fields including photovoltaics, wind power, batteries, heat pumps, electrolyzers, biogas, carbon capture & storage and network technologies. Projects could even be officially declared "of public interest," meaning that "they cannot be blocked for environmental reasons," the Commission explained.

'Return to industrial planning'

Within the Commission, there were heated debates about which sectors could benefit from these adjustments. The nuclear issue was particularly tense. As the days went by, nuclear projects disappeared and then reappeared on the draft proposal. Several commissioners, including the three vice presidents Frans Timmermans, Margrethe Vestager and Valdis Dombrovskis, tried to exclude this production method from the proposal to the bitter end. In the final stretch of the negotiations, France eventually obtained less severe arbitration from Commission President Ursula von der Leyen: As a compromise, only future nuclear technologies – such as small modular reactors – will be eligible for the status of green industry but nuclear power, in general, is not on the list of strategic projects.

Other disagreements – for example over the degree of interventionism and the compatibility of these measures with the European Green Deal – were aired during the Brussels discussions on these proposals which outline a European industrial policy. These are expected to resurface in the coming weeks when the 27 EU member-states and the European Parliament take up the issue in turn.

In an opinion piece published on the website *Politico* on March 9, several economists from the [Bruegel think tank](#) denounced the "crude protectionism and *dirigisme*" that the Commission would demonstrate in the draft "zero emission industry" law, which was widely leaked. They spoke of "a return to industrial planning of the 1960s" and compared the proposal to the defunct "Plan Calcul" drawn up in France under De Gaulle's government in the 1970s to develop the European computer industry to counter US dominance in the field, which ended in failure.

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